LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
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FISCAL IMPACT STATEMENT

LS 6645
BILL NUMBER: HB 1116

DATE PREPARED: Feb 20, 2002
BILL AMENDED: Feb 19, 2002

SUBJECT: IURC Authority.

FISCAL ANALYST: John Parkey
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FUNDS AFFECTED: **X** **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State

Summary of Legislation: (Amended) This bill provides that the IURC has jurisdiction over certain merchant power plants.

The bill encourages:

(1) new energy generating facilities in Indiana that use clean coal technology and are fueled using Illinois Basin coal resources;
(2) advanced technologies that reduce regulated air emissions from existing generating plants;
(3) projects to provide electric transmission facilities;
(4) projects to develop alternative energy sources, including renewable energy projects; and
(5) the purchase by energy utilities of fuels produced by coal gasification facilities in Indiana.

The bill directs the IURC to encourage clean coal and energy projects through financial incentives. It directs the State Utility Forecasting Group to conduct an annual study on the use, availability, and economics of using renewable energy resources in Indiana and to submit a report of its findings to the IURC.

Effective Date: (Amended) Upon Passage.

Explanation of State Expenditures: *(Revised) IURC:* This bill places merchant power plants that begin operating after March 1, 2002 under the jurisdiction of the IURC. Under this proposal, a new merchant power plant would be required to petition the IURC for approval to construct the facility. The bill allows the IURC to consider the following when reviewing a plant's petition: location, need, financing, a plant's impact on utility suppliers and customers, and other factors that Commission deems relevant.

The bill could also have an administrative impact on the IURC in so far as it will require the Commission to develop a mechanism for approving the clean coal and other energy producing projects that qualify for the financial incentives provided in the bill. The bill will also require the IURC and Office of the Utility

Consumer (OUCC) to develop additional ratemaking procedures for the qualified utilities.

While the provisions above could increase the costs of the IURC and OUCC, it is presumed that any increase will be covered using existing resources or using the funding mechanism currently provided for in law. (See *Background on IURC and OUCC Funding*, below)

State Utility Forecasting Group: The bill expands the scope of State Utility Forecasting Group. It requires the Group to conduct an annual study on the use, availability, and economics of using renewable energy resources in Indiana and to submit a report of its findings to the IURC for inclusions in the Commission's annual report to the Regulatory Flexibility Committee. The Group's activities are funded by the IURC.

Department of Commerce: The bill requires firms which qualify for the incentives to submit a monthly report the Department of Commerce on the quantity of Illinois Basin coal purchased for use in new generation facilities, the occupation and use taxes paid on the coal, and other information that the Department may require. The Department is expected to absorb any increase in administrative costs caused by the provision.

Background on IURC and OUCC Funding: The operating budgets of the IURC and OUCC are funded by regulated utilities operating in Indiana. The IURC determines the rate at which to bill the utilities based on the two agencies' budgets, less reversions, divided by the total amount of gross intra-state operating revenue received by the regulated utilities for the previous fiscal year. Based on this formula, utilities are currently billed approximately 0.10% of their gross intra-state operating revenues to fund the IURC and OUCC. In FY 2001, fees from the utilities and fines generated approximately $8.6 M.

Background Information on Merchant Power Plants: As of August 2001, there were seven merchant power plants operating in Indiana. Six plants have petitions currently under review with the IURC.

Explanation of State Revenues: If the provisions in this bill are able to generate new investment in Indiana, it could increase the revenue the state receives from the various corporate taxes. Likewise, if more jobs are created, the state's Income and Sales Tax base would also increase.

Explanation of Local Expenditures: Local governmental entities, including schools, would be subject to any increases in the cost of the electricity caused by the provisions in this bill.

Explanation of Local Revenues: If this bill encourages firms to make additional investments in Indiana, it could increase the property tax base of local taxing units.

State Agencies Affected: Indiana Utility Regulatory Commission; Office of the Utility Consumer Counselor; Department of Commerce; Legislative Council.

Local Agencies Affected: Local governmental entities.

Information Sources: Mike Leppert, Executive Director, IURC, (317) 232-2714; Indiana Utility Regulatory Commission, *2000-2001 Annual Report*.